

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature		Date	
Abraham & Gellray, P.C. Aaron M. Stearns			

**Charlotte Community Library
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2004

Charlotte Community Library

Charlotte, Michigan

June 30, 2004

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Charlotte Community Library

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Charlotte Community Library
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Charlotte Community Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charlotte Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Charlotte Community Library as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Library has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 31, 2004

Charlotte Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

New Financial Reporting

Starting with fiscal year ended June 30, 2004, the Charlotte Community Library, (the "Library") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,902,460 (net assets) at the government-wide level.
- The Library's total net assets increased by \$954,451, as a result of current year activity at the government-wide level.
- Unreserved fund balance decreased by \$11,285 as result of expenditures exceeding revenues in the current year at the fund level.
- The decreases in revenue were only partially anticipated. The decrease in penal fines of approximately 8% was not anticipated nor could it have been, since penal fines are not usually predictable. The millage rate, predictably decreased by the Headlee Millage Reduction Fraction, was at maximum levy rate of 0.8789 for FY 2003. The library received only 87 percent of the possible state aid due to budgetary cuts resulting from the State fiscal situation, and of the \$25,301 received, 50% must go, by law, to the Cooperative to which the Library belongs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charlotte Community Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Charlotte Community Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Charlotte Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

The Library as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 360,128
Noncurrent assets	<u>1,577,458</u>
Total assets	1,937,586
Liabilities	
Current liabilities	25,199
Noncurrent liabilities	<u>9,927</u>
Total liabilities	<u>35,126</u>
Net Assets	
Invested in capital assets, net of related debt	1,577,458
Unrestricted	<u>325,002</u>
Total net assets	<u>\$ 1,902,460</u>

The Library's total net assets were \$1,902,460 at June 30, 2004. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$325,002 at the end of the fiscal year. The net asset invested in capital assets were at 1,577,458. The management's discussion and analysis will present a condensed comparative statement of net assets next year when there are two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenues	
Program revenue:	
Charges for services	\$ 18,069
Operating grants and contributions	35,719
Capital contributions	970,040
General revenue:	
Property taxes	283,990
State Aid - unrestricted	25,301
Penal Fines	108,969
Interest	3,376
Miscellaneous	<u>572</u>
Total revenues	1,446,036
Program Expenses	
Library services/operation	<u>491,585</u>
Change in Net Assets	<u>\$ 954,451</u>

Charlotte Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

Governmental Activities

The Library's governmental revenues totaled \$1,446,036 with the greatest revenue source being a capital contribution of \$970,040. This capital contribution consists of the building that houses the Library operations. This building was deeded to the Library during the fiscal year by the Library Project, Inc.

The Library incurred expenses of \$491,585 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

The Library's Fund

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about specific funds, not the Charlotte Community Library as a whole. The Charlotte Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2004 was the General Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$487,281 for the fiscal year.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated expenditures during the year. As customary, the Budget amendments were made to move the penal fines received in FY 04-05 to FY 03-04 since these are normally budgeted to the previous year. The Board of Trustees also amended the FY 03-04 budget by removing overages from individual line items, anticipating a use of fund balance in the amount of \$5,671 to balance the FY 03-04 budget. It should be noted that this resulted in total budgeted expenditures of \$496,830.

The original budget was amended during the year to reflect net additional projected revenue of \$29,341. Actual state aid and interest receipts were less than originally budgeted because of the national, state, and local economies. Actual donations received were significantly larger than budgeted as a result of a bequest in an amount of \$23,021 and the residual funds from The Library Project, Inc. in the amount of \$8,280. The latter amount was earmarked, by the Board of Trustees at the request of The Library Project, Inc., for automation of the doors rendering them handicapped accessible, and these funds were so used.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,577,458 invested in land, building and improvements, equipment, furniture, and books (net of accumulated depreciation). The main capital asset added was the building deeded to the Library on November 14, 2003 by the Library Project, Inc., with a value of \$970,040. Other additions included \$6,602 in equipment and furniture, and \$66,633 in materials added to the collection (as detailed in note C).

No debt was issued during the fiscal year. The Library had no bonded indebtedness at June 30, 2004. The only long-term liability the Library had at June 30, 2004 was for compensated absences (as detailed in Note D) in the amount of \$9,927. This amount increased \$174 in the current year.

Charlotte Community Library

Management's Discussion and Analysis Year Ended June 30, 2004

Next Year's Millage Rate

At a Special Meeting on June 17, 2004, the Library Board approved certifying a tax levy of 0.8758 mills for the fiscal year 2004-2005. Based on the current taxable value of property in the Library's District, this will generate approximately \$309,833, less an estimated tax capture of \$8,390 for the City of Charlotte's Downtown Development Authority and the industrial park.

Penal fines are down approximately 15% over the past two years. If this trend continues, the Library Budget will negatively affect the FY 04-05 budget. State aid is down from the normal \$0.50 cents per capita to approximately \$0.42 per capita.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Office at 226 S. Bostwick, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

Charlotte Community Library
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 167,808
Investments	82,599
Interest receivable	752
Due from other governmental units	<u>108,969</u>
Total current assets	360,128
Noncurrent assets	
Capital assets, net	<u>1,577,458</u>
TOTAL ASSETS	1,937,586
LIABILITIES	
Current	
Accounts payable	19,508
Accrued liabilities	<u>5,691</u>
Total current liabilities	25,199
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>9,927</u>
TOTAL LIABILITIES	<u>35,126</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,577,458
Unrestricted	<u>325,002</u>
TOTAL NET ASSETS	<u><u>\$ 1,902,460</u></u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

[illegible]

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Charlotte Community Library
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2004

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 167,808
Investments	82,599
Interest receivable	752
Due from other governmental units	<u>108,969</u>
TOTAL ASSETS	<u><u>\$ 360,128</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 19,508
Accrued liabilities	<u>5,691</u>
TOTAL LIABILITIES	25,199
FUND BALANCE	
Unreserved	
Designated for:	
Special projects	82,599
Capital improvements	46,000
Subsequent years' expenditures	108,869
Undesignated	<u>97,461</u>
TOTAL FUND BALANCE	<u>334,929</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 360,128</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Fund balance - governmental fund \$ 334,929

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,418,820	
Accumulated depreciation is	<u>(841,362)</u>	
Capital assets, net		1,577,458

Long-term liabilities are not due and payable in the current period the funds.
and therefore are not reported as liabilities in the funds. Long-term liabilities
at year-end consist of:

Compensated absences	<u>(9,927)</u>
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Net assets of governmental activities \$ 1,902,460

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended June 30, 2004

	<u>General</u>
REVENUES	
Taxes	\$ 283,990
Charges for services	18,069
Intergovernmental	25,301
Fines and forfeits	108,969
Interest	3,376
Other	<u>36,291</u>
TOTAL REVENUES	475,996
EXPENDITURES	
Recreation and cultural	414,046
Capital outlay	<u>73,235</u>
TOTAL EXPENDITURES	<u>487,281</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(11,285)
Fund balance, beginning of year	<u>346,214</u>
Fund balance, end of year	<u><u>\$ 334,929</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Net change in fund balances - governmental funds \$ (11,285)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 73,235
Depreciation expense	<u>(77,365)</u>

Excess of depreciation expense over capital outlay	(4,130)
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Contributions of capital items (i.e., buildings) are not reported as revenues in the governmental funds, but are recorded as revenues in the statement of activities.	970,040
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in compensated absences	<u>(174)</u>
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Change in net assets of governmental activities	<u><u>\$ 954,451</u></u>
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See accompanying notes to financial statements.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Charlotte, and the Townships of Carmel and Eaton created the Charlotte Community Library on December 1, 1998, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of seven (7) members, three (3) appointed by the City of Charlotte, two (2) appointed by the Township of Carmel, and two (2) appointed by the Township of Eaton. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Charlotte Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present all financial activities of the Charlotte Community Library. The Charlotte Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The General fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Receivables

Receivables consist of penal fines, interest, and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Eaton County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of .9 mills for a period of ten (10) years commencing December 1, 1998. For the year ended June 30, 2004, the Library levied .8789 mills.

9. Capital Assets

PRIMARY GOVERNMENT

Capital assets include buildings, equipment, and collection and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment and furniture	5 - 50 years
Collection	5 - 40 years

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, Accounting for Compensated Absences, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Accounting Change

As of July 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$1,142,576, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Library's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$9,753, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of the major fund and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Charlotte Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Charlotte Community Library.

As of June 30, 2004, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Money market checking	\$ 14,377	\$ 15,977
Savings	153,431	153,431
Certificates of deposit	<u>82,599</u>	<u>82,599</u>
TOTAL	<u>\$ 250,407</u>	<u>\$ 252,007</u>

As of June 30, 2004, the Library's deposits were insured by the FDIC in the amount of \$115,977 and the amount of \$136,030 was uninsured.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Restated Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
Governmental Activities				
Buildings and additions	\$ -	\$ 970,040	\$ -	\$ 970,040
Equipment and furniture	335,831	6,602	-	342,433
Collections	<u>1,072,046</u>	<u>66,633</u>	<u>32,332</u>	<u>1,106,347</u>
Totals at historical cost	1,407,877	1,043,275	32,332	2,418,820

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Less accumulated depreciation for:				
Buildings and additions	\$ -	\$ 14,146	\$ -	\$ 14,146
Equipment and furniture	98,460	15,216	-	113,676
Collections	<u>697,869</u>	<u>48,003</u>	<u>32,332</u>	<u>713,540</u>
 Total accumulated depreciation	 <u>796,329</u>	 <u>77,365</u>	 <u>32,332</u>	 <u>841,362</u>
 Capital assets, net	 <u>\$ 611,548</u>	 <u>\$ 965,910</u>	 <u>\$ -0-</u>	 <u>\$ 1,577,458</u>

Depreciation expense of \$77,365 is included in the recreation and cultural activity on the statement of activities.

NOTE D: COMPENSATED ABSENCES

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts Due Within One Year
Compensated absences	<u>\$ 9,753</u>	<u>\$ 174</u>	<u>\$ -</u>	<u>\$ 9,927</u>	<u>\$ -</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$9,927 for compensated absences at June 30, 2004. This amount has been recorded in the government-wide financial statements.

NOTE E: FUND BALANCE DESIGNATIONS

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2004:

General Fund	
Designated for special projects	\$ 82,599
Designated for subsequent years' expenditures	108,869
Designated for capital improvements	<u>46,000</u>
	<u>\$ 237,468</u>

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F: RISK MANAGEMENT

The Library participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

NOTE G: RETIREMENT PLAN

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director and Children's Librarian at 3.40 percent (under the B-3 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2004, the Library's annual pension cost of \$21,503 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 32 year period on a closed basis.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 279,172	\$ 271,065	\$ 277,458
Actuarial accrued liability (AAL)	406,342	429,517	449,729
Unfunded AAL	127,170	158,452	172,271
Funded ratio	69%	63%	62%
Covered payroll	124,661	134,334	149,809
UAAL as a percentage of covered payroll	102%	118%	115%

Charlotte Community Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE G: RETIREMENT PLAN - CONTINUED

Three (3) year trend information - continued

	Year Ended June 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 14,695	\$ 17,402	\$ 21,503
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS

The Library provides certain health care benefits for the Library Director who retired in June of 2000. The Library pays 22% per month toward the cost of health insurance premiums and the City of Charlotte pays 78%. If the Library's portion exceeds \$200 per month, it is the Library Director's responsibility to pay any amount above and beyond the \$200.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2004, those costs totaled \$2,255 and were paid from the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

Charlotte Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 292,403	\$ 283,990	\$ 283,990	\$ -0-
Library fees	17,900	18,640	18,069	(571)
Intergovernmental	20,330	25,301	25,301	-0-
Penal fines	124,885	124,885	108,969	(15,916)
Interest	5,600	2,623	3,376	753
Other				
Donations	-	35,720	35,719	(1)
Other	700	-	572	572
TOTAL REVENUES	461,818	491,159	475,996	(15,163)
EXPENDITURES				
Recreation and cultural				
Salaries and wages	211,414	205,556	213,513	(7,957)
Payroll taxes	16,200	15,751	16,259	(508)
Fringe benefits	97,422	94,723	91,748	2,975
Utilities	18,500	20,079	19,582	497
Supplies	6,432	5,284	5,690	(406)
Postage	1,568	1,287	1,387	(100)
Printing	1,000	1,085	629	456
Repairs and maintenance	13,600	13,528	22,220	(8,692)
Insurance	8,480	8,406	7,871	535
Contractual services	31,865	32,873	33,758	(885)
Travel	1,500	1,487	534	953
Dues and memberships	750	743	670	73
Miscellaneous	250	251	185	66
Total recreation and cultural	408,981	401,053	414,046	(12,993)
Capital outlay				
Books and other materials	70,600	81,850	66,633	15,217
Furniture and equipment	5,000	13,927	6,602	7,325
Total capital outlay	75,600	95,777	73,235	22,542
TOTAL EXPENDITURES	484,581	496,830	487,281	9,549

Charlotte Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUES (UNDER) EXPENDITURES	\$ (22,763)	\$ (5,671)	\$ (11,285)	\$ (5,614)
Fund balance, beginning of year	<u>346,214</u>	<u>346,214</u>	<u>346,214</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 323,451</u></u>	<u><u>\$ 340,543</u></u>	<u><u>\$ 334,929</u></u>	<u><u>\$ (5,614)</u></u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Members of the Library Board
Charlotte Community Library
Charlotte, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Charlotte Community Library for the year ended June 30, 2004. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is the result of our evaluation of the internal controls and our discussions with management.

The Library should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Library may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements).

While this is a common occurrence in small organizations due to the limited number of employees, the Library Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Library review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Library Board provide a greater review and supervision of employee functions and procedures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the financial statements dated August 31, 2004.

This report is intended solely for the use of management and the Library Board of the Charlotte Community Library and should not be used for any other purpose. We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 31, 2004

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